

Slovak transfer pricing rules for domestic transactions

Overview and practice

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Overview of Slovak transfer pricing

- In Slovakia, all related parties (domestic or foreign) have to follow transfer pricing (TP) regulations.
- TP rules have been implemented directly into Slovak legislation and generally are conformed to the OECD Guidelines.
- General rule: Prices in controlled transactions between related parties must be set at fair market value (arm's length principle) for income tax purposes.
- If general rule is broken: The taxpayer should state the difference between the prices charged and the arm's length prices that decreased the tax base. The tax base must be increased by this difference.

Transfer pricing documentation

- TP documentation between related parties is mandatory:
 - since 2009 in respect of cross-border transactions, and
 - since 2015 in respect of domestic transactions as well.
- The Slovak Ministry of Finance defines the content and scope of such documentation in an official guidance.
- Guidance sets three levels of TP documentation based on its complexity:
 1. complete,
 2. basic, and
 3. simplified.

Development in levels of documentation for domestic transactions 1/2

- **2015 – 2017** – was generally determined by the taxpayer
 - Complete documentation (master file and complete local file including functional and risk analysis and benchmarking, detailed information to the chosen TP method) – taxpayers who claim tax relief, who deduct tax losses of more than EUR 300,000, or if deduction in two subsequent years is more than EUR 400,000 in total.
 - Simplified documentation (master file and shortened local file containing the following: list of transactions, more detailed description of each transaction) – all other taxpayers in respect of their domestic transactions.

Development in levels of documentation for domestic transactions 2/2

- **since 2018** – is determined by individual transaction types and their materiality
 - Basic documentation (master file and local file containing the following: specific information related to the taxpayer, detailed description of each transaction, functional and risk analysis, chosen TP method) - for material domestic transactions, if the taxpayer claims a tax relief.
 - Simplified documentation (no master and local file, just completing a template issued by the Slovak Ministry of Finance) – for material domestic transactions.
 - No documentation needed, if a properly completed tax return form is submitted (especially its part related to transactions with related parties) - for immaterial domestic transactions.

Typical domestic transactions of SMEs

- In Slovakia, there are about 550 000* SMEs (including self-employed people), which represents 97%* of all Slovak businesses
- Typical domestic transactions:
 - loans
 - rental of premises
 - purchase of goods and supplies in bulk and ongoing re-sale to the related party
 - shared labour costs (e.g. administrative workers)
 - sale of goods and provision of services also to the related party

• *Source: Slovak Business Agency

Reasons for transactions with related party

- Mostly business reasons (sharing profits, “be fair“, helping each other)
- Any tax reasons? Probably not, due to the following:
 - flat tax rate in Slovakia (CIT is 21 %, PIT is 19% or 25%)
 - corresponding adjustment is available - If the tax base of one entity was increased by the difference between the prices charged and the arm’s length prices, the 2nd entity is entitled to corresponding adjustment to its own tax base.

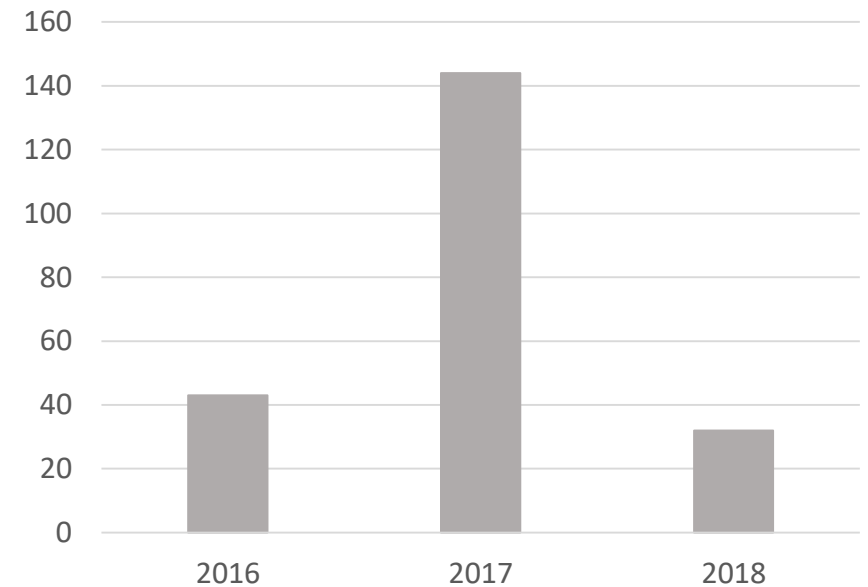
TP from SMEs point of view

- How SMEs feel about the obligation to prepare and keep TP documentation on domestic transactions?
 - Administrative burden
 - Bullying
 - No feelings as they do not know about their obligation
- How SMEs fulfill their obligation to prepare TP documentation on domestic transactions?
 - Some of them just ignore their obligation

Tax audits of domestic transactions

- In Slovakia, there are specialised tax inspectors reviewing TP with the focus on cross-border transactions.
- Domestic transactions could be reviewed as part of the income tax audits.
- Slovak Tax Authorities do not have any specialised statistic data in respect of review of domestic transactions by tax inspectors.

TP tax audits - cross-border transactions



Source: Slovak Tax Authorities

Thank you.



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